FitchRatings

23 JAN 2025

Fitch Rates Washington Suburban Sanitary District, MD's GO Bonds 'AAA'; Outlook Stable

Fitch Ratings - New York - 23 Jan 2025: Fitch Ratings has assigned a 'AAA' rating to the following Washington Suburban Sanitary District, MD (WSSD or the district) general obligation (GO) bonds:

--Approximately $287.2 million consolidated public improvement bonds of 2025;

--Approximately $28.8 million consolidated public improvement bonds of 2025 (second series) (green bonds).

The bonds are anticipated to price competitively on Feb.6; proceeds will be used to fund capital improvements to the system and pay costs of issuance.

Fitch has affirmed the following ratings at 'AAA':

--Approximately $3.9 billion of consolidated public improvement bonds and GO multi-modal bond anticipation notes;

-- Issuer Default Rating (IDR) of the district.

The Rating Outlook is Stable.

The 'AAA' public improvement bond rating, the note rating and IDR consider WSSD's 'Very Strong' utility fundamentals, as reflected in its revenue defensibility and operating risk profiles, both assessed at 'aa'. The financial profile, also assessed at 'aa', reflects Fitch's expectations for leverage (measured as net adjusted debt to adjusted funds available for debt service [FADS]) to remain on a declining trend and comfortably below 10.0x through the five-year horizon.

Leverage is anticipated to peak at 9.4x in fiscal 2026 (FYE June 30) of Fitch's Analytical Stress Test (FAST) rating case prior to resuming its downward trend. This trend remains dependent upon continued healthy rate adjustments over the five-year horizon generating FADS in support of ongoing capital spending and increasing operating costs.

The ratings also reflect Fitch's consideration of the district's leverage in the context of the service area's (Prince George's and Montgomery counties) resource base. From this vantage, its long-term obligations approximate 3.0% of total personal income of the service area. Combined with the district's authority to levy taxes to pay debt service and operations, this expanded view of leverage supports the 'AAA' ratings.

However, Fitch notes that ad valorem taxes are not currently levied, and the authority to do so is subject to a process that, while serving to prevent default, limits the benefit of this additional resource at the current rating level. The district's access to the broader economic base may not support the current rating if total personal income growth lags behind the district's long-term liabilities. Combined with the current leverage trend, access to the broader economic resource base provides only modest headroom at the current rating level.

SECURITY

Debt service is expected to be paid from revenues generated by district fees, charges, rates and assessments and other available funds. In the event of a deficiency of such revenues, the bonds are payable from ad valorem taxes levied within the district (Montgomery County and Prince George's County).

KEY RATING DRIVERS

Revenue Defensibility - 'aa'

Very Favorable Service Area, Affordable Rates for the Vast Majority of the Population

WSSD serves an expansive and very favorable service area that encompasses parts of Prince George's and Montgomery counties. The district retains the legal authority to adjust rates as needed without external oversight. Fitch uses Prince George's county demographic data when assessing service area metrics and notes that demographic metrics for Montgomery County are on par with, or more favorable than, Prince George's County. Fitch considers the monthly residential water and sewer bill affordable for approximately 87% of the service area population based on standard monthly usage of 7,500 gallons for water and 6,000 gallons for sewer.

The very favorable service area is characterized by stronger income levels, a strong unemployment rate relative to the nation and midrange customer growth. Customer growth registered a five-year compound annual growth rate of 0.5% as of fiscal 2024. Income levels are about 28% above the national median as of 2023. The unemployment rate was 2.2% in 2023 and averaged about 6% below the national level over the past four years.

Operating Risk - 'aa'

Very Low Operating Cost Burden, Moderate Investment Needs

In fiscal 2024, the system's operating cost burden was considered very low at $5,747 per million gallons (mg), consistent with the operating risk assessment. The life cycle ratio was very low at 33% in fiscal 2024. Capex to depreciation has been strong, averaging 190% over the last five fiscal years from 2020 to 2024. Planned capital spending for the next five years should generally outpace historical depreciation, supporting a continued very low life cycle ratio.

The capital improvement plan (CIP) spanning fiscal years 2025 through 2029 is approximately $3.9 billion. The CIP includes water distribution, water treatment and storage and wastewater collection projects within and across the two counties. The CIP anticipates about $2.8 billion of funding from debt proceeds, including those on hand, and assumes about $766 million of pay-go funding as well as over $390 million of grants and other third-party capital contributions.

Financial Profile - 'aa'

Leverage to Decline, Neutral Liquidity

The district had very low leverage of 8.4x as of fiscal 2024, continuing the downward trend from the 11.1x peak in fiscal 2020. The liquidity profile is neutral to the overall assessment with fiscal 2024 current days cash on hand of 260 and coverage of full obligations (COFO) of 1.6x. Fitch-calculated total debt service coverage was 1.6x in fiscal 2024, which excludes fixed service expense.

The FAST considers the potential trend of key ratios in a base case and stress scenario over a five-year period. The stress scenario is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. The FAST reflects Fitch's view of a reasonable scenario, which is generally informed by publicly available and/or management provided information with respect to capital expenditures, user charges and rate of revenue and expenditure growth.

Full execution of the CIP is also assumed, which would represent a significant ramp up in spending to an average of $780 million annually, relative to about $395 million annually on average between fiscal 2020 through 2024.

In the base case scenario, the leverage ratio is expected to increase to 9.2x in fiscal 2026, then decrease to 8.2x through fiscal 2029. In the stress scenario, which is considered the rating case, the leverage ratio is projected to increase to 9.4x in fiscal 2026, then decline to 8.8x through fiscal 2029. The liquidity profile is expected to remain neutral to the assessment over the five-year horizon.

Asymmetric Additional Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- Leverage in Fitch's rating case that fails to remain comfortably below 10.0x, assuming stability in the revenue defensibility and operating risk assessments;

--A long-term liability burden measured in the context of the resource base that no longer supports an enhancement to the rating;

--Failure to secure rate increases that satisfactorily support operations and continued robust capital investment.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--The rating is at the highest level on Fitch's scale and cannot be upgraded.

PROFILE

The district provides retail water and sewer services to Montgomery and Prince George's counties along the northern and eastern borders of Washington, D.C. In addition to utility charges, the district has the authority to levy ad valorem taxes without limit for debt service. The district's very favorable service area includes a broad and economically diverse customer base that spans nearly 1,000 square miles and serves over 1.9 million residents through approximately 480,000 water and 450,000 sewer customer accounts.

The commission consists of six members (three from each county, all of whom are district residents), who are appointed by respective county executives. The commission's responsibilities include, but are not limited to, planning for operating and capital improvements of the district, establishing water and sewer usage rates, connection charges and other charges and fees, causing ad valorem taxes to be levied, and approving new debt.

Water production at the district's two treatment plants averages around 163 million gallons per day, well below the district's available supply and capacity. The district's sewer conveyance and treatment capacity are also ample. Treatment is shared among the district's six plants and the Blue Plains Advanced Wastewater Treatment Plant (owned and operated by the District of Columbia Water and Sewer Authority; IDR: AA/Stable) with whom the district maintains a cost-sharing agreement.

Updated U.S. Environmental Protection Agency (EPA) Regulations

The district is addressing new regulations set forth by the U.S. EPA. The EPA's enhanced focus on lead and copper lines and per- and polyfluoroalkyl (PFAS) contaminants has led to the finalized Lead and Copper Rule Improvements (LCRI), along with specific testing requirements for PFAS.

In 2024, the district's test results for PFAS indicated that current levels for all compounds tested were below the EPA maximum contaminant levels. The district believes additional treatment may be necessary to remain compliant given the fluctuations in water source quality. The district is also in compliance with the LCRI; it has not identified any lead service lines within system assets and estimates more than 95% of private lines are not lead.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Fitch Ratings Analysts

Kristen Reifsnyder
Director
Primary Rating Analyst
+1 646 582 3448
Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019

Allison Clark
Director
Secondary Rating Analyst
+1 646 582 4562

Audra Dickinson
Senior Director

Committee Chairperson
+1 512 813 5701

Media Contacts

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Washington Suburban Sanitary District (MD) [Water, Sewer]	LT IDR	AAA	Affirmed		AAA
• Washington Suburban Sanitary District (MD) /General Obligation - Unlimited Tax/1 LT	LT	AAA	Affirmed		AAA

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub.10 Jan 2025) (including rating assumption sensitivity)

U.S. Water and Sewer Rating Criteria (pub.29 Feb 2024) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Washington Suburban Sanitary District (MD)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange

Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.